

Budget Brief – DAS Risk Management (ISF)

NUMBER CFGO-07-18

SUMMARY

The Division of Risk Management was organized in 1980 to implement a self- insurance program for the state. The division provides liability, property, and auto physical damage coverage to all state agencies, the forty school districts, over 40 charter schools, and all state-owned colleges and universities except medical malpractice coverage at the University of Utah.

The Owner Controlled Insurance Program (OCIP) fund provides optional construction project insurance, but at present the only building project insured is the State Capitol renovation. Several highway projects are insured by the OCIP program. The division also acts as an agent in purchasing aircraft insurance for various state entities that have airplanes or flight instruction programs.

The liability insurance and auto physical damage programs are entirely self funded, while the property insurance program is self-insured up to a \$3.5 million aggregate yearly deductible (increased from \$2.5 million last year) with private insurance being purchased for amounts in excess of the deductible.

The division has several internal sections: Administration/Support Staff, Claims, Workers Compensation/ADA, and Loss Control.

ISSUES AND RECOMMENDATIONS

Liability rate decrease, property rate increase

Liability insurance rates will decrease by four percent in FY 2008. These rates are recommended by an actuary based on claims information sent by the division at the end of each fiscal year. Each year the actuary determines whether the fund is actuarially sound and whether reserves need to be increased or decreased. Because of the state's excellent record, rates can come down in FY 2008 for the third consecutive year. Please see Issue Brief CFGO-07-05 for a review of each rate change.

Property insurance rates will increase by 15 percent in FY 2008. When the division renewed its excess insurance policies this year, the rates increased significantly. The increase results from higher national rates, a rising dollar amount of claims made and increasing the self-insurance cap to \$3.5 million. The division requests authorization to transfer some reserves internally to the property program, otherwise the rate increase could be 30-35 percent.

Figure 1: Administrative Services - ISF - Risk Management - Budget History

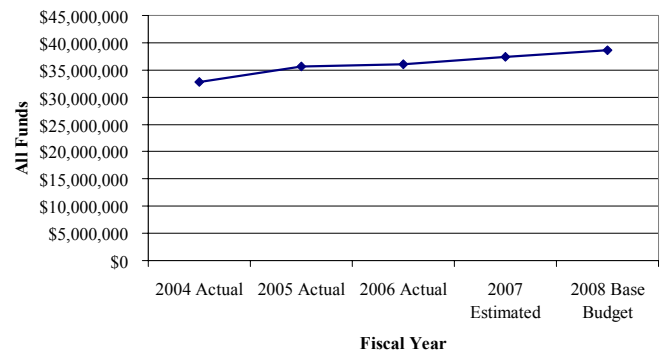


Figure 2: Administrative Services - ISF - Risk Management - FTE History

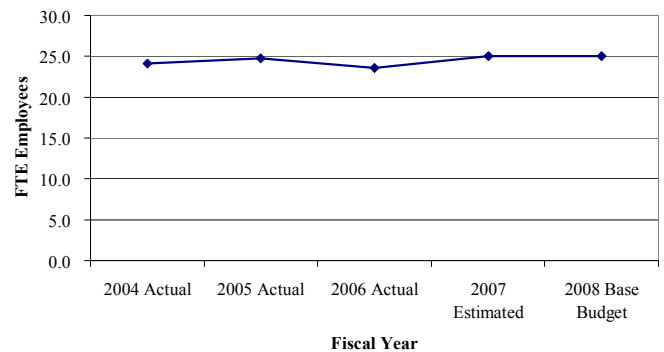
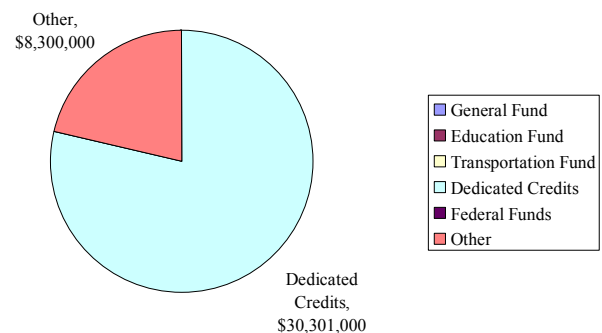


Figure 3: Administrative Services - ISF - Risk Management - FY 2008 Funding Mix



Internal Transfers to Property Program

In order to keep the Property rate increase to 15 percent rather than 30-35 percent, the Analyst recommends the Legislature approve the division's request to make the following program transfers in FY 2007:

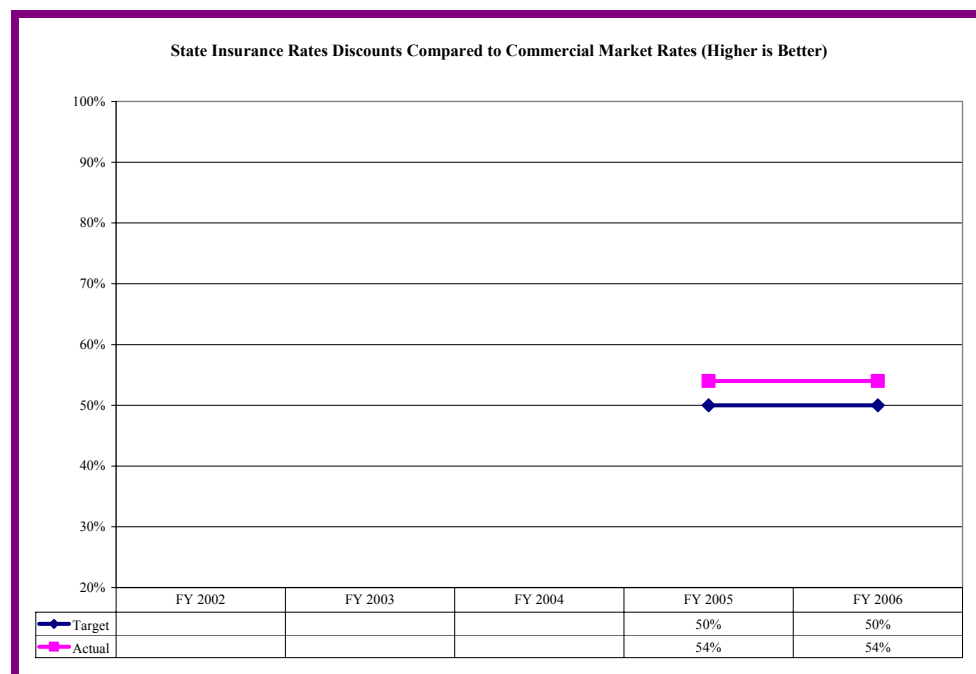
- \$1,000,000 in contributed capital from the Workers Compensation program (which was transferred into the program in FY 2005) to the Property program.
- \$1,800,000 in retained earnings from the Liability program to the Property Program. This will be in addition to \$1.5 million already authorized by the Legislature during the 2006 General Session.
- \$400,000 in retained earnings from the Automobile physical damage program to the Property program.

It should be noted that these are one-time adjustments for an ongoing cost increase. However, they are resources available to help smooth the course. From time to time the Legislature has appropriated retained earnings from this division for statewide purposes. In FY 2004, for example, the Legislature appropriated \$3 million to replace the state's financial accounting system (FINET). In the 2005 General Session the Legislature appropriated \$4.5 million to the General Fund. No such transfers are recommended for the 2007 General Session.

ACCOUNTABILITY DETAIL

Self- Insurance Rate Discounts Compared to Market

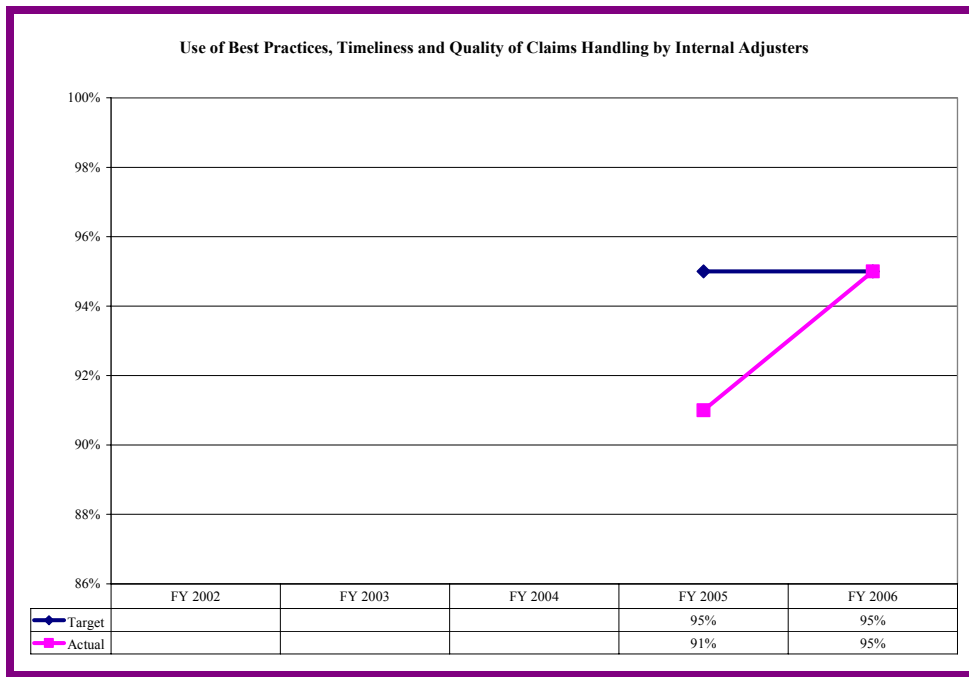
The division's goal is to maintain its average rate discounts at fifty percent (or higher) of market rates.



The actions of customer agencies are not directly in the control of the Division of Risk Management, but the division influences this measure with financial motivations and by educating customers to the benefits of compliance.

Audit Grading Summary

The division contracts with an insurance consulting firm to audit adjusters' work to see if they are meeting standards in documentation, timeliness, fairness to both sides, compliance with regulations, etc. The contractor uses a rating scale to assign a score.



The division's score of 95 percent in FY 2006 is an improvement over FY 2005 and is considered a "Superior Rating" by the insurance consulting firm.

BUDGET DETAIL

Revenue from Premiums represents rates paid by customer agencies for the traditional insurance programs. Restricted revenue comes from Workers' Compensation premiums that are passed through to the Utah Workers Compensation Fund. Workers Compensation rates may change next year as coverage goes out to bid on the open market as required by House Bill 72, 2006 General Session.

Budget Recommendation

- FY 2008 estimated revenues of \$38,601,000
- FY 2007 internal transfers as mentioned on page 2
- Rates as presented separately
- 25.0 FTE
- Authorized Capital Outlay of \$100,000 for the possibility of unforeseen capital expenditures such as computer hardware or database replacement.

LEGISLATIVE ACTION

The Analyst recommends the Legislature adopt:

1. FY 2008 estimated revenues of \$38,601,000 for the Division of Risk Management ISF
2. FY 2007 internal transfers as mentioned on page 2
3. Rates as presented separately
4. 25.0 FTE
5. Authorized Capital Outlay of \$100,000

BUDGET DETAIL TABLE

ISF - Administrative Services - ISF - Risk Management						
Sources of Finance	FY 2006 Actual	FY 2007 Appropriated	Changes	FY 2007 Revised	Changes	FY 2008* Base Budget
Premiums	25,448,100	25,261,100	1,240,900	26,502,000	1,039,000	27,541,000
Interest Income	2,609,700	1,760,000	1,000,000	2,760,000	0	2,760,000
Restricted Revenue	8,031,400	7,540,000	560,000	8,100,000	200,000	8,300,000
Total	\$36,089,200	\$34,561,100	\$2,800,900	\$37,362,000	\$1,239,000	\$38,601,000
Programs						
ISF - Risk Management Admin	28,057,800	26,991,100	2,270,900	29,262,000	1,039,000	30,301,000
ISF - Workers' Compensation	8,031,400	7,570,000	530,000	8,100,000	200,000	8,300,000
Total	\$36,089,200	\$34,561,100	\$2,800,900	\$37,362,000	\$1,239,000	\$38,601,000
Categories of Expenditure						
Personal Services	1,900,000	1,978,000	248,200	2,226,200	7,500	2,233,700
In-State Travel	17,400	19,300	(1,100)	18,200	0	18,200
Out of State Travel	14,100	0	13,200	13,200	0	13,200
Current Expense	31,499,600	32,663,200	3,728,700	36,391,900	418,400	36,810,300
DP Current Expense	105,000	332,800	(203,600)	129,200	(33,000)	96,200
Other Charges/Pass Thru	94,100	200,200	784,800	985,000	(890,900)	94,100
Operating Transfers	2,512,700	1,500,000	2,200,000	3,700,000	(3,700,000)	0
Depreciation	19,100	39,700	(23,700)	16,000	17,300	33,300
Total	\$36,162,000	\$36,733,200	\$6,746,500	\$43,479,700	(\$4,180,700)	\$39,299,000
Other Data						
Budgeted FTE	25.0	25.0	0.0	25.0	0.0	25.0
Actual FTE	23.6	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outlay	0	100,000	0	100,000	0	100,000
Retained Earnings	7,995,000	7,096,600	(5,219,300)	1,877,300	(698,000)	1,179,300
Vehicles	6	6	0	6	0	6

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.